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C O N F I D E N T I A L SECTION 01 OF 02 LIMA 005284

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TAGS: [EPET](#) [ENRG](#) [ETRD](#) [PREL](#) [ECON](#) [CI](#) [PE](#)

SUBJECT: PERU AND ENERGY RING: THREE ELECTIONS AWAY

REF: A. LIMA 4748

[1B](#). LIMA 3093

[1C](#). LA PAZ 3570

Classified By: Charge D'Affaires Phyllis Powers. Reason 1.4 (B,D)

[11. \(C\) SUMMARY:](#) In discussions on November 21 and December 6, GOP Hydrocarbons Director Gustavo Navarro told Econoff that the GOP needs two elements in place to consolidate a "South American energy ring" deal: the participation of Bolivia and more proven gas reserves in Peru. The Energy Ring is effectively on hold until after national elections in Bolivia, Chile and Peru. Peru continues to talk to Bolivia and the GOP is optimistic that it will have enough new natural gas reserves to satisfy the GOP and the Peruvian public that Peru has natural gas to spare for export to Chile and other South American countries. Navarro said that political sensitivities have put signing of the framework agreement on hold, probably until after Peruvian elections in April 2006. END SUMMARY.

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LEGAL FRAMEWORK FINISHED, BUT TIMING BAD

[12. \(SBU\)](#) Econoff met with Ministry of Energy and Mining (MEM) Hydrocarbons Director Gustavo Navarro on November 21 and again on December 6. Navarro reviewed ongoing talks about a draft legal framework agreement for a South American "Energy Ring" that would include Peru, Chile, Bolivia, Argentina and other South American countries. He explained that the framework agreement would not obligate parties to buy or sell natural gas, but would only set out the legal obligations of participating countries in future buy/sell deals. The framework would permit participating countries a secure environment in which to negotiate supply and purchase agreements. The framework would also make participation comfortable for investors, energy firms and pipeline construction firms; it would formalize an accounting system for "swaps," address tax issues and detail the mechanisms for dispute resolution.

[13. \(SBU\)](#) Navarro agreed with press reports that the agreement was basically finished, with all major elements agreed to by the parties. (Note: Energy Vice Minister Juan Miguel Cayo has stressed repeatedly in public that the framework agreement is not a natural gas sale/purchase agreement but a purely legal framework that would allow investors to lay a gas pipeline crossing international borders. Many press reports still treat the framework agreement as though it was a buy/sell deal that would imperil Peru's ability to meet its growing domestic demand. End note.)

[14. \(C\)](#) The political climate remains inopportune for a public signing of even a framework agreement, Navarro said, let alone the substantive supply agreement that would follow the framework. Bolivia's internal debates on its hydrocarbons sector has made it difficult to get the GOB to discuss natural gas exports. The various political issues with Chile -- e.g., Fujimori, the maritime boundary -- that continue to appear on media front pages, Navarro said, make the framework agreement risky to discuss in public.

[15. \(C\)](#) Contrary to some media reports, Navarro said that Peru did not stymie finalization of the framework agreement with a purposeful absence from an energy ring meeting in La Paz on November 8. Foreign Minister Maurtua was to attend the meeting, but could not at the last minute once the news broke that former President Fujimori had landed in Chile (Ref A). He continued that it would not have been proper to have had top Peruvian officials discussing energy supply to Chile two days after Fujimori's arrival there. Peruvian officials, including Energy and Mines Minister Glodomiro Sanchez, participated with other South American energy officials in the November 19-22 meeting of the Regional Energy Integration Commission (CIER) in Santa Cruz, Bolivia at which the Energy Ring was one of the main topics discussed.

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BOLIVIAN, AND MORE PERUVIAN GAS NEEDED FOR SUCCESSFUL DEAL

[16. \(C\)](#) Serious consideration of a supply agreement among Peru, Chile and others is on hold for the time being, said Navarro, and probably would not receive serious consideration until after the upcoming elections in those countries. With political complications continuing between Chile and Peru,

and Chile and Bolivia, the national elections for all three nations within the next four months make an energy ring the sort of political issue that no presidential candidate will want to support publicly. Peru and Bolivia have less high profile issues, but the prevalence of liquefied petroleum gas (LPG) smuggling from Bolivia in to Peru remains an issue for both. While the framework agreement is possible in the coming months, Navarro predicted that no serious substantive supply deal could be considered until after Peru's new president is sworn in on July 28, 2006.

**¶7.** (C) Navarro stressed that for a substantive agreement to be acceptable to both the Peruvian public and the GOP, Peru needs two elements to fall into place. One is confirmation of sufficient natural gas reserves in Peru; government and industry officials say that exploratory drilling continues to be promising but the hard evidence is still lacking. With increasing Peruvian demand (still way below what the GOP had forecast) and the Hunt export project to North America, Navarro said that Peru simply needs more proven reserves to be comfortable with an agreement to export to a South American network. Peru's Block 56 and other blocks surrounding the Block 88/Camisea field are almost certain to show great reserves but the proof is not yet in; exploration work is still in the early stages.

**¶8.** (C) The second element Peru needs is Bolivia's commitment to be a supplier along with Peru in the Energy Ring. (Bolivia has South America's second-largest proven natural gas reserves and it is relatively close in proximity to Peru's Camisea pipeline.) Even after Peru can confirm more gas reserves, the expected demand by Chile, Brazil, Argentina and other countries makes Bolivian participation essential. The GOP Minister and Vice Minister of Mines and Energy met with counterparts in La Paz on November 22 to discuss natural gas integration between the countries, Navarro reported; the GOP and GOB energy ministries continue working coordination.

**¶9.** (U) After the CIER Energy Ministers meeting, Peruvian Minister of Energy and Mines (MEM) Glodomiro Sanchez issued a press statement in which he stressed the great promise of the Energy Ring and the importance of Bolivia as a participant. He reaffirmed the importance of Peru proving more natural gas reserves and the necessity of the framework agreement as a first step. Sanchez outlined two stages of a proposed energy ring, the first with Peru supplying MERCOSUR and the second having Bolivia, Brazil and Argentina becoming suppliers for the Ring. Other public statements by MEM officials have also continued to advocate for the Energy Ring.

**¶10.** (C) Comment: Peru continues to publicly tout the advantages of the Energy Ring despite potential political risk. The GOP is careful to assure the public that domestic supply will be guaranteed, and emphasizes publicly that Bolivia needs to get on board. Media mention of the Energy Ring is diminishing in the Peruvian press, and President Toledo appears to have given up on promoting the Ring for the time being.

POWERS